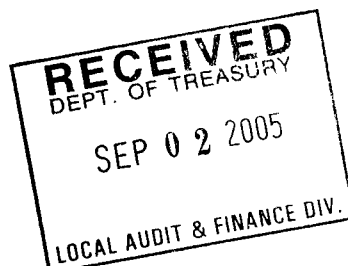


Financial Statements
Bethany Township
Gratiot County, Michigan

March 31, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

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DEPT. OF TREASURY

SEP 02 2005

LOCAL AUDIT & FINANCE DIV.

| | | | |
|---|--------------------------------|---|--------------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Bethany Township | County Gratiot |
| Audit Date 3/31/05 | Opinion Date 7/19/05 | Date Accountant Report Submitted to State: 9/1/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|--|---------------------|-----------------------|
| Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE & CO., PC, CPA'S | | | |
| Street Address 308 GRATIOT AVENUE | | City ALMA | State MI |
| Accountant Signature <i>Chf Partner, CPA</i> | | ZIP 48801 | Date 9-1-05 |

Bethany Township
Table of Contents
March 31, 2005

Independent Auditor's Report

Management's Discussion and Analysis I - IV

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for
Governmental Funds to Net Assets of Governmental
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds 5

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities 6

Statement of Net Assets – Proprietary Funds 7

Statement of Revenues, Expenses and Changes in Fund
Net Assets – Proprietary Funds 8

Statement of Cash Flows – Proprietary Funds 9

Fiduciary Funds Statement of Net Assets 10

Notes to the Financial Statements 11-21

Required Supplemental Information:

Budgetary Comparison Schedule 22

Government Auditing Standards Report 23-24



INDEPENDENT AUDITOR'S REPORT

Bethany Township
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bethany Township, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2005, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-IV, and budgetary comparison information on page 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 19, 2005

MANAGEMENT'S DISCUSSION and ANALYSIS

**Bethany Township
Management's Discussion and Analysis
For the Fiscal Year Ended March 31, 2005**

As management of Bethany Township (the Township), we offer readers of the Township's financial statements, this narrative overview and analysis of the financial activities of the Township for the fiscal year ending March 31, 2005.

The management's discussion and analysis ("MD&A") is provided at the beginning of the audit and is intended to assist the reader in focusing on significant financial issues and provide an overview of the Township's financial activity. The Township encourages readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

Financial Highlights

Our financial statements provide these insights into the results of this year's operations.

- General fund - assets exceeded liabilities as of the close of the most recent fiscal year by \$446,171 (net assets). Of this amount, \$352,891 (unrestricted net assets) may be used to meet the Township's ongoing obligations accounted for in the general fund.
- General fund - net assets increased \$53,816.
- Sewer fund – assets exceeded liabilities as of the close of the most recent fiscal year by \$434,266 (net assets). Of this amount, \$161,414 (unrestricted net assets) may be used to meet the Township's ongoing obligations accounted for in the sewer fund.
- Sewer fund – net assets decreased \$19,476.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, and community and economic development. The major business-type activities of the Township include the Sewer System.

Fund financial statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers will better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the

governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds - The Township maintains one proprietary fund to account for its sewer system activities.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government (i.e. tax collection fund). Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* as required by GASB statement 34 regarding the Township's budgetary comparison of the general fund. This supplementary information is contained behind its own tab following the notes to financial statements

Government-wide Financial Analysis

The Township's net assets in the general fund as of the fiscal year end were \$446,171. Of this amount, \$352,891 was unrestricted, an increase of \$57,797.

Major Governmental Funds Budgeting and Operating Highlights

The Township's budgets are prepared according to Michigan law. The only budgeted fund is the general fund.

During the fiscal year ended March 31, 2005, the Township did not amend its budget for the general fund.

The general fund actual revenue was \$211 thousand. That amount is above the budget of \$201 thousand. The largest portion of the variance between actual and budgeted revenues was the result of conservative state revenue sharing budgeting because of Michigan's struggling economy.

The actual expenditures of the general fund were \$155 thousand, which is below the original budget of \$191 thousand. The variance was due to a conservative spending policy of the Township, again because of Michigan's struggling economy.

Governmental funds - The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance represents 229% of total general fund expenditures.

Capital Assets

Capital Assets – At the end of the fiscal year, the Township had \$873 thousand invested in land, buildings, equipment, and the sewer system. Of this amount, \$507 thousand in depreciation has been taken over the years. The Township has net capital assets of \$366 thousand. There was only one equipment purchase during the year totaling \$1 thousand dollars.

Additional information on the Township's capital assets can be found on page 19 of this report.

Economic Factors and Next Year's Budget

The continual sluggish economy in the State of Michigan has placed state revenue sharing in jeopardy of being reduced to local governmental entities.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Bethany Township in Gratiot County, Michigan.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Bethany Township
Government Wide Statement of Net Assets
March 31, 2005

| | PRIMARY GOVERNMENT | | |
|--|------------------------------------|-------------------------------------|-------------------------|
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| ASSETS | | | |
| Cash and cash equivalents | \$328,906 | \$162,684 | \$491,590 |
| Receivables (net) | - | 1,108 | 1,108 |
| Due from other governments | 33,881 | - | 33,881 |
| Due from fiduciary fund | 2,969 | - | 2,969 |
| Capital assets - net | <u>93,280</u> | <u>272,852</u> | <u>366,132</u> |
| Total assets | <u>459,036</u> | <u>436,644</u> | <u>895,680</u> |
| LIABILITIES | | | |
| Accounts payable | <u>12,865</u> | <u>2,378</u> | <u>15,243</u> |
| Total liabilities | <u>12,865</u> | <u>2,378</u> | <u>15,243</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 93,280 | 272,852 | 366,132 |
| Unrestricted | <u>352,891</u> | <u>161,414</u> | <u>514,305</u> |
| Total net assets | <u><u>\$446,171</u></u> | <u><u>\$434,266</u></u> | <u><u>\$880,437</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Government Wide Statement of Activities
For The Year Ended March 31, 2005

| Functions / Programs | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|------------------------------------|------------------|----------------------|---|-------------------------|--------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Government | |
| | | | | Governmental Activities | Business-Type Activities |
| Primary Government | | | | | |
| General government | \$75,643 | | | (\$75,643) | (\$75,643) |
| Public safety | 32,538 | | | (32,538) | (32,538) |
| Public works | 43,204 | | | (43,204) | (43,204) |
| Community and economic development | 6,036 | \$1,832 | | (4,204) | (4,204) |
| Total governmental activities | 157,421 | 1,832 | - | (155,589) | (155,589) |
| Business type activities | | | | | |
| Water and sewer | 33,609 | 12,772 | - | - | (20,837) |
| Total primary government | \$191,030 | \$14,604 | - | (155,589) | (176,426) |
| General Revenues | | | | | |
| Property taxes | | | | 43,158 | 43,158 |
| State-shared revenues | | | | 144,758 | 144,758 |
| Local unit revenues | | | | 15,888 | 15,888 |
| Unrestricted investment earnings | | | | 5,528 | 6,889 |
| Miscellaneous | | | | 73 | 73 |
| Total general revenues | | | | 209,405 | 210,766 |
| Change in net assets | | | | 53,816 | (19,476) |
| Net assets - April 1, as restated | | | | 392,355 | 453,742 |
| Net assets - March 31 | | | | \$446,171 | \$434,266 |
| | | | | | \$880,437 |

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Bethany Township
Governmental Funds Balance Sheet
March 31, 2005

| | |
|--|-------------------------|
| | General Fund |
| ASSETS | |
| Cash and cash equivalents | \$328,906 |
| Due from fiduciary fund | 2,969 |
| Due from other governments | <u>33,881</u> |
| Total assets | <u><u>\$365,756</u></u> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities | |
| Accounts payable | <u>\$12,865</u> |
| Total liabilities | <u>12,865</u> |
| Fund balances | |
| Unreserved, undesignated | <u>352,891</u> |
| Total liabilities and fund balances | <u><u>\$365,756</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended March 31, 2005

| | |
|--|-------------------------|
| Total fund balance - governmental funds | \$352,891 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Add: capital assets | 158,790 |
| Deduct: accumulated depreciation | <u>(65,510)</u> |
| Net assets of governmental activities | <u><u>\$446,171</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance
For the Year Ended March 31, 2005

| | <u>General Fund</u> |
|--|-------------------------|
| Revenues | |
| Taxes and penalties | \$43,158 |
| Licenses and permits | 1,832 |
| State grants | 144,758 |
| Contributions from local units | 15,888 |
| Interest and rentals | 5,528 |
| Other revenues | <u>73</u> |
| Total revenues | <u>211,237</u> |
| Expenditures | |
| Current | |
| General government | 71,662 |
| Public safety | 32,538 |
| Public works | 43,204 |
| Community and economic development | 6,036 |
| Capital outlay | <u>1,135</u> |
| Total expenditures | <u>154,575</u> |
| Excess of revenues over (under) expenditures | 56,662 |
| Fund Balance, April 1 | <u>296,229</u> |
| Fund Balance, March 31 | <u><u>\$352,891</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended March 31, 2005

| | |
|--|------------------------|
| Net change in fund balances - total governmental funds | \$56,662 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | |
| Add: capital outlay | 1,135 |
| Deduct: depreciation expense | <u>(3,981)</u> |
| Change in net assets of governmental activities | <u><u>\$53,816</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Statement of Net Assets
Proprietary Funds
March 31, 2005

| | Business-Type Activities Enterprise Funds |
|--|--|
| | <u>Sewer Fund</u> |
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$162,684 |
| Receivables - net | <u>1,108</u> |
| Total current assets | <u>163,792</u> |
| Noncurrent assets | |
| Capital assets | 714,207 |
| Less: accumulated depreciation | <u>(441,355)</u> |
| Total noncurrent assets | <u>272,852</u> |
| Total assets | <u>436,644</u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable | <u>2,378</u> |
| Total current liabilities | <u>2,378</u> |
| Total liabilities | <u>2,378</u> |
| Net assets | |
| Invested in capital assets, net of related debt | 272,852 |
| Unrestricted | <u>161,414</u> |
| Total net assets | <u><u>\$434,266</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended March 31, 2005

| | <u>Business-Type Activities Enterprise Funds</u> |
|----------------------------------|--|
| | <u>Sewer Fund</u> |
| Operating revenues | |
| Sewer disposal services | \$12,772 |
| Total operating revenues | <u>12,772</u> |
| Operating expenses | |
| Contractual services | 15,754 |
| Depreciation | <u>17,855</u> |
| Total operating expenses | <u>33,609</u> |
| Operating income (loss) | <u>(20,837)</u> |
| Nonoperating revenues | |
| Interest revenue | <u>1,361</u> |
| Total nonoperating revenues | <u>1,361</u> |
| Change in net assets | (19,476) |
| Total net assets, as of April 1 | <u>453,742</u> |
| Total net assets, as of March 31 | <u><u>\$434,266</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Statement of Cash Flows
Proprietary Funds
For the Year Ended March 31, 2005

| | Business-Type Activities Enterprise Funds |
|--|--|
| | <u>Sewer Fund</u> |
| Cash flows from operating activities | |
| Receipts from customers | \$12,688 |
| Payments to suppliers / outsiders | <u>(14,635)</u> |
| Net cash provided (used) by operating activities | <u>(1,947)</u> |
| Cash flows from investing activities | |
| Interest revenue | <u>1,361</u> |
| Net increase (decrease) in cash and cash equivalents | (586) |
| Cash and cash equivalents, April 1 | <u>163,270</u> |
| Cash and cash equivalents, March 31 | <u><u>\$162,684</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by Operating Activities | |
| Operating income (loss) | (\$20,837) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | |
| Depreciation expense | 17,855 |
| Change in assets and liabilities | |
| Receivables - net | (84) |
| Accounts and other payables | <u>1,119</u> |
| Net cash provided by operating activities | <u><u>(\$1,947)</u></u> |

See Accompanying Notes To Financial Statements

Bethany Township
Fiduciary Funds
Statement of Net Assets
March 31, 2005

| | <u>Agency Fund</u> |
|-------------------------|------------------------|
| Assets | |
| Cash and equivalents | <u>\$3,196</u> |
| Total assets | <u><u>\$3,196</u></u> |
| Liabilities | |
| Accounts payable | \$227 |
| Due to general fund | <u>2,969</u> |
| Total liabilities | <u><u>\$3,196</u></u> |

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Bethany Township
Notes to Financial Statements
March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Bethany Township (the Township) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

New Accounting Standards Adopted

In fiscal year 2005, the Township adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- # 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – (an Amendment to No. 34)*
- # 38 – *Certain Financial Statement Note Disclosures.*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the Township's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the Township's statement of net assets includes both noncurrent assets and noncurrent liabilities of the Township, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

In addition to the government-wide financial statements, the Township has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Bethany Township
Notes to Financial Statements
March 31, 2005

Statement No. 34 also requires certain required supplementary information in the form of *Management's Discussion and Analysis* which includes an analytical overview of the Township's financial statements. In addition, a budgetary comparison statement is presented that compares the adopted and modified budget for all major funds with actual results.

Statement No. 37 amends GASB Statements No. 21 and 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements.

Reporting Entity

The Township is governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units. In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in a reporting entity is made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."* In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Joint Ventures

Mid-Michigan Community Fire Control Board – This joint venture was established April 1, 1982 for the purpose of providing fire protection to its members of local governments: City of St. Louis and the Townships of Bethany, Pine River and Jasper, located in Gratiot and Midland counties. The City and Townships each appoint one member to the joint venture's governing board. This board then determines and approves the annual budget.

The Township makes annual contributions to the Fire Board based on a formula using the average of the last 4 years of fire runs to determine the percentage cost applicable to each participating unit.

For the period July 1, 2004 through June 30, 2005, the Township's contribution to the Board was \$31,888.

The Township is unaware of any circumstances that would cause it an additional benefit or burden in the near future. Complete financial statements for the year ended June 30, 2005 can be obtained by writing to: Mid-Michigan Community Fire Board, 108 W. Saginaw, St. Louis, Michigan 48880.

Bethany Township
Notes to Financial Statements
March 31, 2005

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Bethany Township
Notes to Financial Statements
March 31, 2005

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments, are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Bethany Township
Notes to Financial Statements
March 31, 2005

The Township reports the following major funds:

Governmental Funds - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary Funds - The Sewer Fund which accounts for the activities of the sewage collection system.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Budgets and Budgetary Accounting

Budgets are adopted by the Township for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Property Taxes

Property taxes are levied on each December 1st on the taxable valuation of property located in the Township as of the preceding December 31st. These taxes are due on February 14th with the final collection date of February 28th before they are added to the county delinquent tax rolls.

For Township operations, the 2004 Taxable Valuation of the Township totaled \$34,966,562, on which .9481 mills were levied.

The total 2004 levy for the Township was \$33,152.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Bethany Township
Notes to Financial Statements
March 31, 2005

Inventories

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental and proprietary fund types.

Deposits

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

Receivables have been recognized for all significant amounts due the Township in accordance with the accounting principles used for the particular fund. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

Fixed Assets

Capital assets, which include property, plant and equipment, of the governmental activities are reported in the governmental column in the government-wide financial statements. Capital assets of the proprietary funds are reported in the statement of net assets of the proprietary funds. Capital assets are defined by the Township as individual assets with an initial cost equal to or more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Township does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Bethany Township
Notes to Financial Statements
March 31, 2005

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|--------------|----------------------------------|
| Land | Not Applicable – Not Depreciated |
| Equipment | 5 – 10 |
| Buildings | 50 |
| Sewer System | 40 |

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Township does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2005, the Township incurred expenditures in excess of the amounts appropriated as shown on pages 22 of this report.

Bethany Township
Notes to Financial Statements
March 31, 2005

NOTE 3 - DETAILED NOTES

Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorized the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's deposits are in accordance with statutory authority.

At March 31, 2005, the carrying amount of the Township's cash and cash equivalents was \$491,590 as follows:

| | |
|------------------------|-----------|
| Cash Deposits | \$437,090 |
| Certificate of Deposit | 54,500 |
| Total | \$491,590 |

At year end, the carrying amount of the Township's cash deposits and certificate of deposits was \$491,590 and the bank balance was \$494,930. Of the bank balance, \$100,000 was covered by federal depository insurance and \$394,930 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Bethany Township
Notes to Financial Statements
March 31, 2005

Fixed Assets

A summary of changes in general fund fixed assets follows:

| | April 1, 2004 | Additions | Disposals | March 31, 2005 |
|--------------------------|---------------|-----------|-----------|----------------|
| Land | \$1,000 | - | - | \$1,000 |
| Buildings | 145,227 | - | - | 145,227 |
| Equipment | 11,428 | \$1,135 | - | 12,563 |
| | | | | |
| Sub-totals | 157,655 | 1,135 | - | 158,790 |
| Accumulated Depreciation | (61,529) | (3,981) | - | (65,510) |
| | | | | |
| Totals | \$96,126 | (\$2,846) | - | \$93,280 |

Depreciation expense was charged to the general government function.

A summary of changes in proprietary fund fixed assets follows:

| | April 1, 2004 | Additions | Disposals | March 31, 2005 |
|--------------------------|---------------|------------|-----------|----------------|
| Sewer System | \$714,207 | - | - | \$714,207 |
| | | | | |
| Accumulated Depreciation | (423,500) | (\$17,855) | - | (441,355) |
| | | | | |
| Net Fixed Assets | \$290,707 | (\$17,855) | - | \$272,852 |

Risk Management

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Township has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Bethany Township
Notes to Financial Statements
March 31, 2005

Segment Information For Enterprise Funds

The Township maintains one Enterprise Funds that provide sewer services. Segment information for the year ended March 31, 2005 is as follows:

| | |
|--|----------|
| Operating Revenues | \$12,772 |
| Operating Income (Loss) | (20,837) |
| Non-operating Revenue – Interest | 1,361 |
| Net Income (Loss) | (19,476) |
| Depreciation Expense | 17,855 |
| Property, Plant, And Equipment Additions | - |
| Net Working Capital | 161,414 |
| Total Assets | 436,644 |
| Total Equity | 434,266 |

Employees Retirement System – Defined Contribution Pension Plan

Bethany Township participates in the Manulife Financial Defined Contribution Pension Plan for Michigan Township Employees. The name of the plan is the Bethany Township Group Employee's Pension Plan.

All members of the Township Board and all Township Employees are eligible to participate in the plan. As of March 31, 2005, the pension plan's current membership was 8 employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participants receive depend solely on the amount contributed to the participant's account and the returns earned on those contributions.

Employer contributions for each participant will be 15% of compensation. Benefits are 100% vested upon plan participation.

During the year, the Township's actual contributions to the plan amounted to \$5,447.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

Bethany Township
Notes to Financial Statements
March 31, 2005

Restatements

During the 2005 fiscal year, the Township implemented various GASB Statements, as noted in Note 1 – Summary of Significant Accounting Policies.

As a result of implementing the new GASB Statements, the following restatements were made to beginning fund balance and net asset accounts:

Fund Financial Statements – None.

Government-Wide Statements -

| | |
|--|-----------|
| Fund balances of governmental funds as of 3/3/04 | \$296,229 |
| Add: governmental capital assets as of 3/31/04 | 157,655 |
| Less: accumulated depreciation as of 3/31/04 | (61,529) |
| Governmental net assets, restated, as of 4/1/04 | \$392,355 |

REQUIRED SUPPLEMENTAL INFORMATION

Bethany Township
Budgetary Comparison Schedule for the General Fund
For the Year Ended March 31, 2005

| | Budgeted Amounts | | Actual | Actual Over (Under) Final Budget |
|--|------------------|------------------|------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes and penalties | \$43,700 | \$43,700 | \$43,158 | (\$542) |
| Licenses and permits | 1,800 | 1,800 | 1,832 | 32 |
| State grants | 134,500 | 134,500 | 144,758 | 10,258 |
| Contributions from local units | 16,500 | 16,500 | 15,888 | (612) |
| Interest and rentals | 4,200 | 4,200 | 5,528 | 1,328 |
| Other revenues | 300 | 300 | 73 | (227) |
| Total revenues | 201,000 | 201,000 | 211,237 | 10,237 |
| Expenditures | | | | |
| Current | | | | |
| General government | 58,000 | 58,000 | 71,662 | (13,662) |
| Public safety | 44,500 | 44,500 | 32,538 | 11,962 |
| Public works | 60,000 | 60,000 | 43,204 | 16,796 |
| Community and economic development | 18,000 | 18,000 | 6,036 | 11,964 |
| Other | 10,000 | 10,000 | - | 10,000 |
| Capital Outlay | - | - | 1,135 | (1,135) |
| Total expenditures | 190,500 | 190,500 | 154,575 | 35,925 |
| Excess of revenues over (under) expenditures | 10,500 | 10,500 | 56,662 | 46,162 |
| Fund Balance, April 1 | 296,229 | 296,229 | 296,229 | - |
| Fund Balance, March 31 | <u>\$306,729</u> | <u>\$306,729</u> | <u>\$352,891</u> | <u>\$46,162</u> |

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Township Board
Bethany Township
Gratiot County, Michigan

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Bethany Township (the Township) as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Township, in a separate letter dated July 19, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management, and the Township Board is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 19, 2005



Management Letter

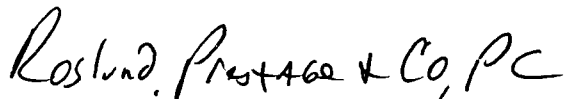
Members of the Board
Bethany Township, Michigan

In planning and performing our audit of the financial statements of Bethany Township for the year ended March 31, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated July 19, 2005, on the financial statements of Bethany Township.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,



Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 19, 2005

Organizational Structure

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Township Officials remain involved in the financial affairs of the organization to provide oversight and independent review functions.

Additionally, we recommend all Township Officials review on a regular basis, the monthly bank statements, actual disbursement checks and deposit tickets, and related bank reconciliation forms.

Have Management Review Bank Statements

At present, accounting personnel perform bank reconciliations. We recommend that an independent Township Board member open the bank statements and review them for any unusual checks or other transactions before giving them to accounting to perform the reconciliation. Management's review of the bank statement will ensure that unusual items are investigated on a timely basis.